MINUTES OF MEETING

of the

FEDERAL ADVISORY COUNCIL

February 19-20, 1935

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1935

OFFICERS:

President, Walter W. Smith
Vice President, Howard A. Loeb
Secretary, Walter Lichtenstein

EXECUTIVE COMMITTEE:

Walter W. Smith
Howard A. Loeb
Thomas M. Steele
James H. Perkins
H. Lane Young
W. T. Kemper

MEMBERS:

Thomas M. Steele	Federal Reserve District No. 1
James H. Perkins	Federal Reserve District No. 2
Howard A. Loeb	Federal Reserve District No. 3
Arthur E. Braun	Federal Reserve District No. 4
Charles M. Gohen	Federal Reserve District No. 5
H. Lane Young	Federal Reserve District No. 6
Solomon A. Smith	Federal Reserve District No. 7
Walter W. Smith	Federal Reserve District No. 8
Theodore Wold	Federal Reserve District No. 9
W. T. Kemper	Federal Reserve District No. 10
Joseph H. Frost	Federal Reserve District No. 11
M. A. Arnold	Federal Reserve District No. 12

BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

ARTICLE I. OFFICERS

Officers of this Council shall be a President, Vice-President, and Secretary.

ARTICLE II. PRESIDENT AND VICE-PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice-President shall serve.

ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council and his duties and compensation shall be fixed by the Executive Committee.

ARTICLE IV. EXECUTIVE COMMITTEE

There shall be an Executive Committee of six (6) members of the Council, of which the President and Vice-President of the Council shall be *ex officio* members. To fill a vacancy, the President, or in his absence, the Vice-President shall be authorized to designate as a member of the Executive Committee for a given meeting another member of the Council other than one elected to the Executive Committee.

ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Federal Reserve Board and with their regulations and promulgations, and communicate the same to the members of the Council, and to suggest to the Council from time to time, special matters for consideration.

The Executive Committee shall have power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum and action of the Committee shall be by majority of those present at any meeting.

ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September, and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 19, 1935.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 19, 1935.

The first and organization meeting of the Federal Advisory Council for 1935 was convened in Room 836 of the Mayflower Hotel, Washington, D. C., on Tuesday, February 19, 1935, at 10:15 A. M.

Present:

Mr. Thomas P. Beal (Alternate for Mr. Steele)	District No. 1
Mr. James H. Perkins	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. Arthur E. Braun	District No. 4
Mr. Charles M. Gohen	District No. 5
Mr. H. Lane Young	District No. 6
Mr. Solomon A. Smith	District No. 7
Mr. Walter W. Smith	District No. 8
Mr. Theodore Wold	District No. 9
Mr. W. T. Kemper	District No. 10
Mr. Joseph H. Frost	District No. 11
Mr. M. A. Arnold	District No. 12
Mr. Walter Lichtenstein	Secretary

Mr. Theodore Wold was elected Chairman *pro tem* and Mr. Walter Lichtenstein Secretary *pro tem*.

The Secretary stated that communications had been received from all of the Federal Reserve banks certifying to the election of their representatives in accordance with the above list.

Upon nominations for the office of President of the Council being called for, Mr. Walter W. Smith was nominated. On motion, duly made and seconded, the nominations were closed and the Secretary was instructed to cast a ballot for Mr. Smith, who was thereupon declared elected President of the Council for the year 1935.

Upon nominations for Vice-President being called for, Mr. Howard A. Loeb was nominated. On motion, duly made and seconded, the nominations were closed and the Secretary was instructed to cast a ballot for Mr. Loeb, who was thereupon declared elected Vice-President of the Council for the year 1935.

The President, Mr. Smith, thereupon took the Chair and called for nominations for the four appointive members of the Executive Committee. Messrs. Thomas M. Steele, James H. Perkins, H. Lane Young, and W. T. Kemper were nominated. On motion, duly made and seconded, these gentlemen were unanimously elected members of the Executive Committee for the year 1935, the President and Vice-President being *ex officio* members.

On motion, duly made and seconded, Mr. Walter Lichtenstein was elected Secretary of the Federal Advisory Council for the year 1935 at a salary of $2,000 per annum.

On motion, duly made and seconded, the Council readopted for the year 1935 the existing by-laws which are attached hereto and made part of these minutes.

On motion, duly made and seconded, the minutes of the Council meeting of November 19-20, 1934, copies of which had been previously sent to the members, were approved.

The Secretary presented his financial report for the year 1934, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago, which on motion, duly made and seconded, was approved and ordered to be printed. The report is attached hereto and made a part of these minutes.

On motion, duly made and seconded, the following resolution was unanimously adopted:

"Resolved, that the Secretary be and he is hereby authorized to ask each Federal Reserve Bank to contribute $350 toward the Secretarial and incidental expenses of the Federal Advisory Council for the year 1935 and to draw on it for that purpose."

It was voted that the Mayflower Hotel continue to be used as headquarters of the Council.

It was voted that the President send a telegram to Mr. T. M. Steele, conveying the greetings of members of the Council and wishing him a speedy recovery.

Mr. H. Lane Young stated that the Federal Reserve Bank of Atlanta and presumably other Federal Reserve banks had received a letter from the Federal Reserve Board raising the question whether it would not be desirable to reduce the rates of interest now charged on the loans made directly to industry by Federal Reserve banks. After some discussion it was decided that the Council did not wish to take up this question.

The meeting adjourned at 10:55 A. M.

WALTER LICHTENSTEIN,
Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ending December 31, 1934.

Balance on hand, December 31, 1933	$2,114.72	Salary	$2,000.00
Assessment—Twelve Federal Reserve Banks	4,200.00	Miscellaneous	54.93
		Conference Expenses	895.14
		Printing and Stationery	681.37
		Postage and telegrams	335.25
		Balance on hand December 31, 1934	2,348.03
	$6,314.72		$6,314.72

Chicago, January 7, 1935.

To the Federal Advisory Council:

I have audited the books, vouchers and accounts of the Secretary of the Federal Advisory Council for the year ending December 31, 1934, and certify that the above statement agrees therewith.

Respectfully,

FIRST NATIONAL BANK OF CHICAGO,
(Signed) J. J. BUECHNER,
Asst. Auditor.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL AND THE FEDERAL RESERVE BOARD

February 19, 1935.

At 11:30 A. M. a joint conference of the Federal Advisory Council and the Federal Reserve Board was held in the Federal Reserve Board Room, Washington Building, Washington, D. C.

Present: Members of the Federal Reserve Board:

Vice-Governor J. J. Thomas; Messrs. C. S. Hamlin, G. R. James, A. C. Miller, and M. S. Szymczak; also Messrs. Walter Wyatt, General Counsel for the Board; Chester Morrill, Secretary to the Board; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Federal Reserve Board; and Dr. E. A. Goldenweiser, Director, Division of Research and Statistics, Federal Reserve Board.

Present: Members of the Federal Advisory Council:

Mr. W. W. Smith, President; Mr. H. A. Loeb, Vice-President; Messrs. T. P. Beal, J. H. Perkins, A. E. Braun, C. M. Gohen, H. L. Young, S. A. Smith, Theodore Wold, W. T. Kemper, J. H. Frost, M. A. Arnold, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the topics proposed by the Federal Reserve Board for discussion:

1. Proposed banking act of 1935, S. 1715 and H. R. 5357.
2. Whether Federal Reserve banks should continue to function under section 13 (b) of Federal Reserve Act or whether they should gradually discontinue making industrial advances and leave this field of activity to Reconstruction Finance Corporation.

Mr. Hamlin stated that there were five outstanding matters to consider in connection with the bill pending before Congress (S. 1715, H. R. 5357):

1. The merger of the offices of Federal Reserve Agent and Governor.
2. The constitution of the open market committee.
3. Liberalization of real estate loans.
4. Abolition of collateral for Federal Reserve notes.
5. Broadening of eligibility requirements of paper presented for rediscount.

At 11:45 A. M. Mr. Kemper left the meeting.

Some discussion took place regarding the second topic presented by the Federal Reserve Board, namely section 13 (b) of the Federal Reserve Act, which deals with direct loans to industry by Federal Reserve banks. There was some review of what had been done in respect to these loans in various districts.

The Secretary of the Council then read the topics presented by the Council:

1. The Viner-Hardy Report.
2. The Federal Reserve Board's proposal as to rotation of members of the directorates of the various Federal Reserve banks.
3. The proposal to consolidate the office of Governor and Chairman in the Federal Reserve banks and/or give the Board the power of veto over governors selected.

4. It might be timely for us to take cognizance of the condition which has been brought about with respect to the tremendous volume of excess reserves in the hands of the Federal Reserve banks and the pressure on member banks to find a satisfactory commercial bank investment for them. It has seemed that this pressure would eventually result in banks investing either in second-rate securities or in unreasonably long-term securities that are first grade in order to obtain what they might regard as a satisfactory income return, and it now seems that this condition has very largely come about and that the member banks are loading up with long-term securities, principally Governments, at prices which may eventually cause them a great deal of embarrassment and possibly even bring into question the solvency of a great many otherwise properly managed banks.

5. The new banking bill S. 1715, H. R. 5357.

In respect to topic No. 1, dealing with the Viner-Hardy Report, it was felt that this report had no present significance, especially as the more important recommendations contained in this report were now embodied in S. 1715, H. R. 5357, the bill pending before Congress. Consequently, insofar as the report has any importance at present, it can be discussed in connection with the bill.

Mr. Frost discussed at some length topic No. 4 of those submitted by the Council, stating that in his opinion the Federal Reserve System should not at present increase its portfolio of Governments, but rather pursue a policy the reverse of the one followed in recent times.

At 12:15 P. M. Mr. Kemper returned.

Dr. Miller discussed at some length the terms of the bill, S. 1715, H. R. 5357, pointing out that since we are not at present on the gold standard and most countries are not, the fundamental factors present when the Federal Reserve Act was first adopted have changed to such an extent that it is quite natural that the law governing the central banking system should be changed to conform with its present functions and needs.

The meeting adjourned at 12:40 P. M.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 19, 1935.

At 2:30 P. M the Federal Advisory Council reconvened in Room 836 of the May-. flower Hotel, Washington, D. C., the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. H. A. Loeb, Vice-President; Messrs. T. P. Beal, J. H. Perkins, A. E. Braun, C. M. Gohen, H. L. Young, S. A. Smith, Theodore Wold, W. T. Kemper, J. H. Frost, M. A. Arnold, and Walter Lichtenstein, Secretary.

It was decided to request President Smith to arrange a meeting with Governor Eccles at 9:00 o'clock Wednesday morning, February 20, 1935, in Room 836 of the Mayflower Hotel.

Mr. Beal stated that Governor Young felt that under the provisions of Title II of S. 1715, H. R. 5357, the governor of each Federal Reserve bank would simply become an employee of the Treasury. Governor Young believes that there should be a chairman as chief advisor of the governor of the local bank who should be an outstanding citizen of his community and who would not be actively concerned with the daily routine of the bank. The present duties of the chairman should be performed by a regular subordinate employee of the bank. Some of the other governors of the System approved of this idea.

It was decided to ask Governor Eccles to answer the following two questions:

1. Admitting that rules regarding Class C directors should be formulated by the Government, since Class C directors directly represent the Government, why should the same rules in regard to length of term apply to Class A and B directors?

2. Why should the appointment of a governor of a local Federal Reserve bank be "subject to the approval of the Federal Reserve Board?"

At 3:30 P. M. Dr. Goldenweiser appeared before the Federal Advisory Council. He discussed at considerable length the pending banking legislation and the Secretary of the Council was instructed to make a transcription of his notes of Dr. Goldenweiser's remarks and furnish a copy to each member of the Federal Advisory Council.

Mr. Kemper left the meeting at 5:40 P. M.

Dr. Goldenweiser completed his remarks at 5:50 P.M. and the meeting was adjourned.

WALTER LICHTENSTEIN,
Secretary.

MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 20, 1935.

At 9:00 A. M. the Federal Advisory Council reconvened in Room 836 of the Mayflower Hotel, Washington, D. C., the President, Mr. Smith, in the Chair.

Present: Mr. Walter W. Smith, President; Mr. H. A. Loeb, Vice-President; Messrs. T. P. Beal, J. H. Perkins, A. E. Braun, C. M. Gohen, H. L. Young, S. A. Smith, Theodore Wold, W. T. Kemper, J. H. Frost, M. A. Arnold, and Walter Lichtenstein, Secretary.

Governor Marriner S. Eccles met with the Council and discussed at length Title II of S. 1715, H. R. 5357. The Secretary of the Council was instructed to make a transcript of his notes of Governor Eccles' remarks and furnish a copy to each member of the Federal Advisory Council.

Governor Eccles finished his remarks at 11:00 A. M. and left the meeting. He agreed to inform the other members of the Federal Reserve Board that the Council at the present time did not request a meeting with the Federal Reserve Board, but would do so when it had been possible for it to formulate a statement to be submitted to the Board in respect to the topics discussed.

The Chair appointed a committee of three to study S. 1715, H. R. 5357 and if it seems desirable prepare a report to be submitted to the Council. The Chair appointed the following committee: Messrs. Perkins, Loeb, and Steele. It is understood that Mr. Beal is the alternate of Mr. Steele, but that he is to continue to serve on this committee even after Mr. Steele is able to participate actively in the work of the committee. It is also understood that the President and Secretary of the Council shall be *ex officio* members of the committee.

There was some discussion about the question of the F. D. I. C. including in the deposits on which insurance is to be paid government deposits and secured deposits. The general feeling was that these should not be included in the net deposits on which insurance is to be paid.

Mr. Young again brought up the question of the proposed reduction of the rate of interest on loans made by Federal Reserve banks directly to industry. The view was expressed unofficially by members of the Council that this should not be done, but also that it would not be desirable for the Council to take any action.

The meeting adjourned at twelve noon.

WALTER LICHTENSTEIN,
Secretary.

February 21, 1935

STRICTLY CONFIDENTIAL

Memorandum from Walter Lichtenstein to members of Federal Advisory Council on conversations with Dr. Goldenweiser on February 19, 1935, and Governor Eccles on February 20, 1935:

Before transcribing for the benefit of the members of the Council my notes of the statements of Dr. Goldenweiser and Governor Eccles, it may be of interest if I again call attention to the book by Lauchlin Currie "The Supply and Control of Money in the United States," Harvard University Press, 1934. The importance of this book rests upon the fact that it obviously represents in most complete form the theories underlying the views presented by Governor Eccles in his various addresses and statements and gives also the theoretical basis for the provisions in Title II of H. R. 5357, especially in reference to such matters as reserves, eligibility provisions, open market operations, and the like. It seems to me that it is difficult to understand what the ultimate aim of some of those connected at present with the Federal Reserve System is without making a careful study of Currie's book.

It may be well in that connection to call special attention to the third part of the book beginning on page 151 in which Mr. Currie presents his ideas as to an ideal banking system. As he implies himself in a footnote to page 156, he agrees essentially with the plan developed by Henry C. Simon, of The University of Chicago, treated in a pamphlet entitled "A Positive Program for Laissez Faire" a copy of which will be mailed to you under separate cover.

Statement of Dr. Goldenweiser

The difference between Currie and Eccles is that the former is purely academic while the latter is hampered by practical knowledge. Both of them hark back to Keynes, namely his belief that all economic situations depend on money which consists largely of deposit currency. If the increase of money is left to the bankers, naturally in good times when rates are high because money is in much demand, the profit motive will induce the bankers to make more loans and thereby create more deposits and so the boom is accentuated, while in a period of depression the situation is made worse. Consequently, according to Keynes and Currie, laissez faire and business stability are contradictory. Therefore, the control of money cannot be left to private agencies. With Eccles this is coupled with an idea to keep national income at a fairly stable level and if private enterprises fail Government must see to it that the "compensatory function" comes into action by spending freely on non-competitive enterprises. Eccles believes that such action should prevent the accumulation of savings since it is necessary to keep funds moving. Unless we do something of this kind Eccles believes that our capitalistic system is doomed and he believes that in some respects it has collapsed. He believes if capitalism isn't supported then also our whole democratic political machine will fail. So far for his philosophy.

Goldenweiser believes that except for the mortgage loan features the bill is merely burying fetishes which have been killed in the last few years. Both the elasticity of the eligibility as well as the new collateral requirements exist now as emergency measures; the bill makes these measures permanent. As regards collateral requirements, Goldenweiser is for the new provisions, pointing out that the British system, for example, has no reserve requirements at all. Eligibility should not be subject to Congress as it isn't in session long enough and too hard to convince. The question ought to be under the control of the Federal Reserve Board, so that it may meet any sudden emergencies. Goldenweiser believes in these changes, but admits that they are all predicated on a belief of wise management at the political center.

Consolidation of governor and agent is in order. The only trouble is that the Board in the past has made very poor selections of agents and chairmen and its record in this respect is indefensible. The result has been that the governors have in most instances become the important officials of the local Federal Reserve banks. The method of selecting A and B classes of directors has not been changed. Goldenweiser believes that the question about the membership of the Governor of the Board ceasing when he ceases being Governor need not be discussed because this clause is to be dropped.

Open market operations. The existing situation in law is bad, though in practice it has worked. According to the present arrangement there is a representative of each local Federal Reserve bank on the open market committee. This committee formulates the policy. If the Board approves the individual Federal Reserve banks must carry out the policy. In practice New York or Washington has determined the open market policy. In Goldenweiser's opinion the machinery proposed is also bad. It is bad for the Board because it puts on one side three members who will handle the most important phase of the credit policy. In addition there are two governors who if they can win over one member of the Board will control the policy, while the rest of the Board, though charged with full responsibility will not be able to prevent what they may regard as a calamity. Goldenweiser believes full power should be given to the Board with a committee of governors in an advisory capacity. (Remark by Walter Lichtenstein: This advisory committee would have about as much power as the Federal Advisory Council.) Responsibility must be in Washington and so control ought to be there. People will not stand control by New York which is in reality the only other possibility.

Mr. Perkins asked Goldenweiser why the matter should not be referred to a commission for study. Goldenweiser answered that there is no emergency, but Eccles is convinced there is one and that Congress insists on doing something. If this bill isn't passed something worse may result. Furthermore, the bill is what Eccles wants, and then, also, the whole subject has been studied now for over twenty years. We have an impatient administration and Goldenweiser thinks that on the whole there is less going off half-cock in respect to this bill than any other measure presented by the administration.

There was a general criticism about the real estate provisions. Mr. Beal believes 75% to be ridiculous proportion when based on amortization. To base amount that can be loaned on time deposits and savings is very bad in times of emergency and furthermore, the geographical restrictions ought not to have been removed.

Statement by Governor Eccles

Governor Eccles started by answering two queries put to him by Mr. Walter W. Smith.

1. In respect to directors of local banks feeling is that if term is not limited there may be a tendency for some one group to get control. In some banks there is a certain amount of dry rot in the boards of directors. Eccles wants bank representations confined solely to group A directors since the feeling is very strong against banking control of Federal Reserve banks.

2. Question of approval of governors by the Board. The original law contemplated that the chairman should be the head of the banks and the governor is not mentioned in the law even now. If the law is not changed then Eccles wants to make the chairman the real head of the local bank by increasing the chairman's salary and reducing the salary of the governor.

Mr. Wold wanted to know how Governor Eccles could justify this since the law states that the local board of directors is to appoint officials to run the bank. Eccles stated that some members of the Federal Reserve Board wanted the governor of the local bank appointed directly by the Federal Reserve Board and this is also the view of the politicians. Eccles believes that the arrangements proposed will prevent purely political appointments. The idea is to prevent a cleavage between the Board and the local bank. There has been trouble at times especially in San Francisco.

It was pointed out by Mr. Beal that the provisions on page 39 line 1 and following conflict somewhat with the provisions of page 39 line 14 and following. In answer Governor Eccles stated that he would be willing to have the governor's term coincide with his term as class C director, namely three years. The reason for not making the vice-chairman in all cases a class C director was because this might eliminate some existing class C men who are to be kept. Furthermore, a man may be a good deputy governor and not good as a vice-chairman.

Questions were raised about real estate loans up to 75% of the appraisal to which the Governor replied that the Federal Reserve banks will fix the percentage of margin required for any loan based on real estate. The Federal Reserve Board will make the general rules and regulations, but the local Federal Reserve bank will have to pass on the credit in light of all the facts. Eccles said that Governors Harrison and Young and practically all other governors are for this provision.

Governor Eccles went on to say there is little likelihood that the large excess reserves will diminish and in fact they will probably be increased by silver purchases and the possible use of the gold profit. He believes we may easily have six billion excess reserves and this would mean a possible expansion of forty to fifty billion dollars. If the Federal Reserve banks sold all their governments which amount to 98½% of all earning assets, they would have to go to the Treasury in order to meet their expenses which would lead to an investigation of all expenses and result in having the salaries placed on a civil service basis. In view of the present and presumably future excess reserves there is little likelihood of much rediscounting of any kind. No one is planning to use any of these funds.

The Board is to have the right, page 48, line 22 and following, to fix the reserves and if a boom came this would make it possible to check it if it reached undue dimensions. Eccles believes it would be proper to forbid making different rules for different districts, but does believe that the different classes of banks, that is central reserve, reserve, and country banks, might well be subject to different regulations.

Governor Eccles claims that there is not much difference between a long term amortized mortgage and a bond based on a mortgage. (This again is taken directly from Currie. W. L.) As a matter of fact more banks were wrecked by their bond accounts than for any other reason. Examiners closed banks because bonds having a market value could be marked down and the bank declared insolvent. In a period of great deflation no liquidity is possible except through the Federal Reserve System. If the Government takes over gradually the loans formerly made by banks such as is now being done by the R. F. C., the HOLC, etc., etc., and the banks are left to invest their funds purely in government bonds, then pretty soon the Government will take over all the chief functions of banks, leaving the banks merely to be agencies for furnishing funds to the Government.

At present there are about two billion dollars of real estate loans in banks which are now gradually being liquidated by funds derived from various government agencies. In the opinion of Governor Eccles it would be much better not to have real estate loans continually being renewed. It frequently happens that when a short term mortgage matures the holder of the mortgage demands a reduction of the original loan before he will agree to renew the mortgage. As usually the debtor finds it impossible to meet the demand for reduction, he is very apt to create a second mortgage. All of this has resulted in making the cost of real estate loans exorbitant. In Great Britain savings associations make amortized loans for thirty years at not more than 4%. The HOLC has four and one-half billions now and if the new act is passed the HOLC will pretty soon have 20 to 25% of all the mortgages in the country.

There are about ten billion dollars of savings accounts in commercial banks and either the savings bank business must be taken out of the commercial banks or there must be more real estate mortgages. Banks will no longer be able to pay 2-2½% and insist on short term paper. The new law creating building and savings associations will bring about a high rate being paid for savings. Savings departments in commercial banks should be forced to do the same business that is now largely done by mutual savings banks.

Mr. Perkins asked whether there was not danger of the Federal Reserve Board becoming a purely political body and by being given greater control will endanger the independence of every bank in the country. Governor Eccles admitted that the set-up is purely political. He believes like Dr. Goldenweiser that the present divided responsibility in the case of open market operations is bad. The Federal Reserve System originally was meant to provide elasticity, but was not intended in itself to be a money control system. There is need, however, of conscious control of money. (See Currie. W. L.) At present the twelve governors initiate, the Board has to approve. If it should disapprove there would be a check-mate and in the event of approval any local Federal Reserve bank may refuse to cooperate; thus there is no place where responsibility rests.

The present bill is not satisfactory to the Governor in respect to open market requirements and he is not responsible for that part of the bill. He believes the Federal Reserve Board has three functions: fixing reserves, handling open market operations, and determining rediscount rates, and all three functions should be lodged in the same hands, as these three functions control the factors determining the amount of money. In the final analysis, any administration in power comes in representing certain economic and social ideas and in order to carry these out will insist on a money and fiscal system which will carry out these ideas; any administration if it finds a system opposed to its ideas will insist on change. There must, after all, be the closest kind of co-ordination between the Treasury and the banking system of the country. Governor Eccles defined the three factors of a compensatory system as the tax system, public works expenditures, and the banking system.

Governor Eccles said that he was not in a position to suggest changes on the Board which would be tantamount to suggesting the removal of some colleague. He apparently would like to see the suggestion made that the Secretary of the Treasury and the Comptroller of the Currency be omitted from the Board; the Board itself to be reduced to five members by not making a new appointment when a vacancy occurs. To this Board should be added for the purpose of determining reserves, open market operations, and rediscount rates, four governors rotating, so that for the purposes indicated there would be a committee of nine.

Eccles was asked regarding the appointment of the Governor by the President. The only change in that respect is that the Governor ceases to be a member of the Board when he ceases to be Governor.

Lane Young asked about branch banking and Eccles replied that it was originally in the bill but was taken out in order not to add to the controversial material already in the bill. Originally the bill provided that a bank might have branches within a Federal Reserve bank branch area. There are thirty-seven such districts in the United States and they are practically co-terminous with the so-called trade areas. This sort of an area is desirable because, as a matter of fact, the examining of banks is done by bank branch districts. It also would make the clearing of items and the carrying of reserves simpler.

Like Goldenweiser, Eccles objects to the proposed open market committee. He would prefer his proposal of a Board consisting of five members to which should be added four governors, or in lieu of that the Board invested with full power over the three chief functions listed above. In the latter case he would have an advisory committee of governors and there should be no action until the governor's committee had been heard. Above all, he does not want the present divided responsibility.

In answer to a question Governor Eccles stated that he doubted whether the bill could pass before June or July.